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UNCLAS SECTION 01 OF 03 RANGOON 000809

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SUBJECT: ECONOMY OF MANDALAY, BURMA'S SECOND LARGEST CITY

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Summary

¶1. (SBU) Mandalay, Burma's second largest city, is home to approximately one million people and more than 20,000 registered businesses. It is a vibrant, bustling city, and Chinese influence is readily apparent at every turn. Mandalay is a trading center and transshipment point for jade, gems, and agricultural products, which are sold to Rangoon, Thailand, and China. Seventy-five percent of Mandalay's businesses are dependent on agriculture. Despite the hustle and bustle, poverty remains rampant throughout the city, and businesses complain that it is becoming more difficult to work in Burma. While the GOB does not produce economic growth figures by city, local business people estimate that the local economy has shrunk by more than 15 percent, with prices increasing and disposable incomes falling. End Summary.

Snapshot of Mandalay

¶2. (SBU) Like Rangoon, Mandalay is a trading center, with more than 20,000 registered businesses. Merchants import, often illegally through border trade, Chinese and Indian products that they resell to Rangoon and other places throughout the country. Mandalay is also a transshipment point for goods produced in Northern Burma, such as agricultural products, jade, and gems, which are often sold to Rangoon and neighboring countries, particularly Thailand, or China. There are more than 200 jade and gems stores in Mandalay, selling products from the Mogok and Phakant mines, and several streets in the downtown area are dedicated to the sale of jade, gems, and gold. Nevertheless, the majority of Mandalay businesses remain dependent on agriculture; farmers in Mandalay and Sagaing Divisions produce rice, beans, and pulses that Mandalay trading companies buy and resell to exporters in Rangoon. Tourism also plays an important role in Mandalay's economy, accounting for

about 15 percent of the city's GDP.

¶13. (SBU) Mandalay is also an industrial city, boasting an industrial zone with more than 1,100 factories. According to Ye Naing Naing Tun, Manager of the Mandalay branch of Myanmar Tractors, the majority of businesses in the industrial zone produce heavy machinery, such as cars, turbines, and mining and drilling equipment.

¶14. (SBU) All 14 of Burma's private banks have branches in Mandalay, an indication that there is wealth in the city. U Tin Tun, Deputy General Manager of Kanbawza Bank (Burma's largest private bank), told us that while the bank's main business continues to be the remittance of money to other parts of Burma, the number of customers with savings accounts has quadrupled from 500 to 2000 in the past three years - the largest growth in Kanbawza history. While most of Kanbawza Bank's customers are Burmese, the number of Chinese customers has increased, accounting for almost 35 percent of saving accounts, he noted.

¶15. (SBU) Mandalay has more than 150 internet cafes, most of which are registered, Khun Oo, Vice President of the Myanmar Computer Professionals Association, told us. Internet connections tend to be slower than in Rangoon; most cafes use dial-up services while only a few subscribe to broadband. Unlike in Rangoon, wifi service is not readily available in Mandalay. Internet usage costs are higher in Mandalay than in Rangoon, at approximately 1,000 kyat (USD 0.83) an hour compared to between 500-800 kyat (USD 0.42-0.67) an hour. There are no movie theaters in Mandalay and most bars and restaurants close by midnight, unless they have special permission from the Mandalay Regional Commander.

Stagnating Economic Growth

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¶16. (SBU) Despite the hustle and bustle of the city, the city's economic growth has stagnated since 2007, Min Htin, YMCA Mandalay Board member and small business owner, told us. The GOB does not publish data on economic growth by city, but Min Htin and his business colleagues estimated that Mandalay's growth had shrunk by 15 percent over the past 18 months. He noted that more than 600 Mandalay-based businesses closed in 2007 and 2008, including 20 factories. Ye Naing Naing Tun pointed out that Mandalay's electricity problems - the city and surrounding areas have received an average of six hours of electricity a day in 2008 - and the increasing cost of diesel fuel, at USD 6.50 a gallon, have caused Mandalay businesses to experience substantial losses. Consequently, an increasing number of people are turning to service-based industries, such as restaurants, hair salons, and gift shops, to earn a living in Mandalay, he noted.

¶17. (SBU) Food prices in Mandalay continue to rise at a faster rate than in Rangoon. Coupled with stagnant salaries, many Mandalay residents have less disposable income, Ye Naing Naing Tun said. The decline of tourism, estimated to be down by as much as 60 percent in Mandalay, also hurts economic growth. Koichi Tanaka, Manager of the Sedona Hotel Mandalay, emphasized that the downturn in tourism affected more than just hotels; taxi drivers, tour guides, restaurants, and others were also feeling the pinch (septel). While Mandalay is on face a prosperous city, 27 percent of city residents live in poverty, according to UNDP.

Chinese Influx

¶18. (SBU) Chinese influence in Mandalay is strong and immediately apparent. Mandalay is located approximately 150 miles from the China border and Eastern China Air runs a direct flight from Kunming, Yunan Province, to Mandalay three times a week. The majority of businesses in downtown Mandalay are owned by either ethnic Chinese or Chinese-Burmese people. Store signs are in both Chinese and Burmese languages. Local grocery stories, such as City Mart and Orange, have specific sections devoted to Chinese food products. Zaw Ye Htun, Manager of City Mart Mandalay, told us that

demand for Chinese food products increases annually and that the store often imports food directly from Kunming to meet the Mandalay residents' needs. Of the five international schools located in Mandalay, two offer classes taught in Chinese. Chinese language schools abound, with five new ones opening a year, Min Htin, YMCA Mandalay Board member, explained.

¶9. (SBU) Despite the abundance of Chinese people and products in Mandalay, the general sentiment among Burmese appears decidedly anti-Chinese. During a discussion on small business development in Mandalay, local participants complained bitterly that Chinese businesses were expanding their influence throughout the city, buying up smaller Burmese businesses and paying their Burmese workers low wages. One participant noted that in most instances, Chinese companies brought in their own workers rather than training and providing jobs to the locals. Another participant commented that Chinese businesses were only in Burma for their own good, noting that Chinese companies were building the Yei Ywa dam outside of Mandalay in exchange for free electricity (septel).

Comment

¶10. (SBU) Mandalay is one of the most vibrant cities in Burma - the energy is palpable. However, it is increasingly taking on the appearance of a foreign city, as Chinese continue to move in and dominate the economy. Resentment is growing and some Mandalay

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residents feel that the government is selling out by giving economic benefits -- extractive industry concessions, low prices for oil and gas, minerals, and other natural resources -- to Chinese companies.

The opinion among Burmese living in Mandalay is that Chinese investment does little to promote the overall economic development of the city. Instead, they view the investment as a way for the Chinese to procure Burmese products and resources at low prices without creating jobs and training opportunities for local Burmese.

VAJDA